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Evaluation of the Haiti Small Farmer Coffee Marketing Project

Executive Summary

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EXECUTIVE SUMMARY

This evaluation assesses in detail the performance and impact of the Small Farmer Marketing Project (PCC). The evaluation also reviews the history and impact of the interventions of the U.S. Agency for International Development in the coffee sector, including the Small Farmer Improvement Project (PPC) as well as PCC, and draws on the assessments of these two projects to provide recommendations for the proposed coffee technology transfer project.

PRINCIPAL FINDINGS AND CONCLUSIONS

The overall objective of both PPC and PCC was to increase small farmer income. PPC, which began in 1974 and was terminated in 1981, aimed at achieving this objective through increases in smallholder coffee production. PCC, which began in 1977 and will terminate on August 30, 1984, was designed to complement PPC by providing small farmers with an alternative coffee marketing network. Specifically, PCC aimed at:

- Creating new and strengthening existing coffee marketing cooperatives;
- Improving the quality of coffee processing (even creating a new brand) by emphasizing washed coffee and providing the cooperatives and regional centers with coffee processing equipment;
- Creating a national coffee processing center, which could directly export coffee on behalf of the cooperatives; and
- Strengthening the project implementation capacity of the Government of Haiti's executing agency, the Office of Promotion of Exportable Commodities (OPRODEX [formerly IHPCADE]).

Both projects sought to influence government policy with respect to the tax on coffee exports.

<u>The Small Farmer Improvement Project</u>

PPC did not accomplish its objectives. Although some temporary increases in production were recorded among farmers who availed themselves of the project's subsidized in-kind (fertilizer) and cash (for labor) group credit scheme, the project was not able to halt the steady decrease in coffee production that has afflicted Haiti for the last 30 years. The elaborate input, extension, and credit delivery mechanisms of this project did not function well during its life and ceased functioning altogether once AID financing was withdrawn. The principal reasons for the failure of PPC were its:

- Strategy of creating local organizations (agricultural credit societies [SACs]) to receive the inputs and credit rather than working through previously existing organizations;

- Failure to test the coffee production technological package for acceptability to small farmers before extending it; and

- Reliance on multiple, fragile, and inexperienced government agencies to coordinate a complicated input, extension, and group credit delivery mechanism.

Small Farmer Marketing Project

PCC, in contrast, has succeeded in achieving most of its objectives. Cooperatives have increased in number, membership, and coffee sales, and most are socially and financially viable. Cooperative coffee marketing competes effectively, albeit on a localized basis, with private exporters and "speculateurs"; most farmers receive a higher financial return from marketing coffee through cooperatives than they would by marketing through speculateurs. A national cooperatives center for processing and exporting coffee -- the Pilot Center for Cooperative Coffee Exporting (CEPEC) -- has operated since 1981. It has increased its export volume every year and, with subsidies, operates profitably. No new brand has been created, and the emphasis on washed coffee has been abandoned, but an effort has been made to improve the quality of natural coffee marketed by the cooperatives. For most project components, OPRODEX has carried out its implementation responsibilities effectively. No action has been taken toward modifying the coffee tax.

Cooperatives

PCC's strongest achievement has been to strengthen the cooperative movement. Over the life of the project, the number of coffee marketing cooperatives and pre-cooperatives has doubled, and membership in these organizations has tripled. With the exception of some of the older, mainly single-purpose coffee cooperatives, most of the cooperative organizations respect established cooperative principles, such as open membership, democratic procedures, and member participation. Coffee marketing in all the full cooperatives is profitable on a cash flow basis and would also be profitable for most of them even if no costs were subsidized. (The coffee marketing operations of the one pre-cooperative analyzed is unprofitable as a result of low volume.) Several of the multi-purpose cooperatives sustained overall operating losses in 1982-83 because of the unprofitability of enterprises other than coffee marketing.

Coffee Marketing

In general, cooperatives are able to compete effectively with exporters and speculateurs. This is not due to the cooperatives' taking advantage of alleged inefficiencies -- including collusion, price-fixing, and exorbitant profits -- in the exporter/speculateur system, for which the evaluation team found no hard evidence or sound inferential arguments. Instead, it results from economies of scale that permit most cooperatives to pay quality bonuses and patronage refunds to farmer members. When these payments are added to the base purchase price, farmers marketing coffee through cooperatives were found to receive a return that was 8-26 percent higher than those who sold their coffee to speculateurs.

Coffee Processing and Exporting

The key to the success of the cooperatives' coffee marketing was the creation of CEPEC. In its first year, it purchased coffee from 15 cooperatives and exported 2,224 sacks (266,880 pounds); last year, it purchased coffee from 36 cooperatives and exported 10,299 sacks (1,235,880 pounds), a volume that slightly exceeded the target set in the original PCC Project Paper. CEPEC's financial records show a net operating profit of 703,567 gourdes ($140,713) for 1982-83. If the subsidies that CEPEC is receiving from PCC are costed, however, profits are reduced to nearly zero. (Subsidies include personnel support, rental of facilities, equipment purchases, and a grant of $440,000 used as a revolving fund to purchase coffee from cooperatives.)

CEPEC is now operating in temporary rented facilities. In 1984, PCC will finance the construction of a permanent coffee processing and exporting plant for the cooperatives. The plant will have an initial capacity of only 20,000 sacks. However, a calculation based on current CEPEC financial statements plus projected fixed costs for the new plant reveals that the new plant will have to export 24,200 sacks (2.9 million pounds) to cover its costs without subsidies.

PCC is currently financing the construction of a pilot washed coffee processing plant at Marbial, with a capacity of 2,000 sacks. However, farmers have not responded well to incentives to produce more washed coffee (including a lower export tax on washed coffee that presumably could be passed on to the producer). In contrast, farmers have responded well to the incentives, represented by CEPEC's quality bonuses, to produce better quality natural coffee. PCC has distributed more than 100 items of processing equipment, mainly hand-cranked depulpers and hullers, to cooperatives and regional coffee centers. However, jurisdictional disputes within the Haitian government have so far kept the coffee centers, which were built under PPC, from becoming operational under PCC.

Institutional Roles and Performance

OPRODEX has done a creditable job of planning, monitoring, and evaluating PCC activities. Its most notable accomplishments have been to strengthen the cooperatives and to create CEPEC. Its greatest weakness has been its inability to secure financing for CEPEC or for the cooperatives from public or private banking facilities. This problem was created in part by banks' distrust of farmer groups, stemming from their previously weak repayment performance under PPC; the problem is exacerabated by the disadvantages inherent to any government agency attempting to broker financing between third parties.

Midway through the project, the coffee marketing cooperatives established the Union of Haitian Coffee Cooperatives (CCH), which was intended, among other things, to assume operational control of the cooperatives' national processing facility. A 1981 revision of AID's grant agreement formalized this expectation and added that PCC staff should be integrated into the new organization. CEPEC has begun to turn its profits over to CCH, and the land for the new plant has been acquired in the name of the coffee cooperatives. However, OPRODEX has resisted ceding operational control of CEPEC to CCH, which, in any case, does not yet have the financial or management capacity to assume this responsibility. Moreover, it is not realistic to expect that PCC staff, almost all of whom are government civil servants and whose salaries are now topped off (sometimes more than doubled) by PCC, would give up the security of government jobs to accept employment, probably at a much reduced salary, in a new organization of uncertain financial means.

Tax Policy

Both PPC and PCC sponsored studies of the coffee export tax. In general, these studies have found that the tax is regressive, economically inefficient, structurally irrational, and probably acts as a disincentive to increased production. Recommendations have ranged from some modification of the structure to outright elimination of the tax. However, the tax also represents a sufficiently important source of government income (about 12 percent of general revenues) that the government is unlikely to modify it without assurance of compensating revenue. To date, AID has chosen not to make modification of the tax a condition for project funding.

RECOMMENDATIONS

The Cooperative Movement

1. The Government of Haiti, AID, and other donors should continue to help strengthen the cooperative movement in Haiti to provide a participatory and pluralistic foundation for local development activities. Care should be taken, however, to work only with organizations whose existence is based on local interests and ties rather than with those based solely on the need to attract external resources.

2. Coffee marketing cooperatives should be encouraged to diversify their activities but should consider eliminating activities that are not financially viable.

3. Membership in cooperatives generally mirrors the distribution of power and resources in the local community. Thus, cooperative leadership is often made up of local elites. However, donors should not support or work through cooperative organizations whose membership is effectively limited to local elites.

4. Subsidies are probably necessary and should, therefore, not be ruled out for nascent cooperative organizations. However, subsidies should be extended to an organization only after a determination has been made of the conditions and timing necessary to eliminate them as well as of the probability that the organization will be able to achieve those conditions.

5. Mature cooperatives should look to the Agricultural Credit Bureau (BCA) for working capital to purchase coffee from members. AID may wish to consider establishing a special credit window within BCA to enable it to respond to cooperatives' needs.

6. The development of regional cooperatives, modeled after the Regional Cooperative for the Southern Region (UNICORS), should be encouraged. However, they should not be superimposed on weak or nascent organizations, but should develop from the natural growth of mature cooperatives.

Coffee Marketing

7. The Government Of Haiti, AID, and other donors should continue to support the marketing of coffee through cooperatives.

8. The operation of the new plant should be subsidized until it reaches a volume of 25,000 sacks a year. Plans should be drawn up for the gradual withdrawal of subsidies as volume increases.

9. The Haitian government, with the assistance of AID, should renew its efforts to secure increased working capital funding for the new plant, preferably through BCA.

10. AID should sponsor a study of coffee processing in Haiti, with particular attention to the relative advantages of peforming certain processing functions (both wet and dry) at local, regional, or national levels.

The Role of Institutions

11. In the short term, AID should continue to work with OPRODEX as its principal partner to develop the coffee and cooperatives sector.

12. AID should work with CCH to determine what is needed to strengthen its financial and management capacity. Technical assistance in management and financial planning is probably indicated.

13. CCH should draw up a plan by which patronage refunds to cooperatives are distributed on the basis of the quality of coffee that the cooperatives sell to CEPEC.

14. CCH, with the assistance of AID, should determine the internal CCH conditions, such as adequate staffing, tested procedures, and financial capacity, that will be necessary for it to assume operational control of CEPEC. CCH should then draw up a plan, including a timetable, by which it intends to satisfy those conditions. The plan should justify any required subsidies from the government or AID as temporary. This plan should then be used as the basis for negotiation of a new project with AID and OPRODEX.

Coffee Production and Government of Haiti Policies

15. The proposed new project should include a production component, with cooperatives serving as the local organizational basis for certain production activities.

16. A condition precedent to first disbursement under any new project should be some modification of the coffee tax.

17. AID should work with the advisers on the new Tax Administration Project to determine how fiscal revenues from sources other than coffee can be raised to compensate for any decrease in revenues from a modification of the coffee tax. Particular attention should be given to the possibility of levying or enforcing the collection of taxes on property; on the export of bauxite, sisal, or sugar; and on luxury imports.

THE COFFEE TECHNOLOGY TRANSFER PROJECT

AID should build on the accomplishments of PCC and the lessons learned from PPC in the development of the proposed coffee technology transfer project. The project should be developed collaboratively with appropriate government and cooperative institutions and should consist of the components discussed below.

Marketing

Despite the success of PCC, much unfinished work remains to be done. The most important work includes:

- Continued assistance to the new processing plant;
- Assistance with securing working capital credit for the purchase of coffee, both by local cooperatives and by the new plant; and
- Examination of how coffee processing through cooperatives can be rationalized with respect to the relative advantages of processing at the local, regional, and national levels.

Production

There is a clear limit to the income transfer benefits that cooperatives' marketing can secure for small farmers. Sustained increases in income can occur only through increases in production.

The new project's production component should learn lessons from the failure of PPC. The most important is that extension education and credit should not be proffered to small farmers through artificially created groups. For this reason, the mature cooperatives that have participated in PCC are logical candidates for constituting the local organizational basis of the new project's production component.

The technological package for the production component should be developed and extended through the use of a farming systems approach. This means that a certain amount of applied research on farmers' fields should be carried out to test the technical feasibility and acceptability of proposed interventions. The participation of cooperatives in the development and testing of interventions should be encouraged.

Institutional Development

AID should use the development of the new project as a forum to bring together key institutional actors, including OPRODEX, the National Cooperative Council (CNC), and CCH to negotiate their respective roles in the project. The government may want to include other organizations in this discussion, including the Department of Agriculture, National Resources, and Rural Development (DARNAR). The logical candidate for the lead institution in the new project is OPRODEX. However, AID should include in the project resources for the insitutional strengthening of CCH.

Government of Haiti Policies

The coffee tax question has been studied enough. It is time for AID to decide whether it wishes to use project financing leverage to require the Haitian government to act on this issue. AID should insist at least on a modification of the tax, including some reduction and a rationalization of its internal structure as a condition precedent to first disbursement on the new project. Subsequent action could be made conditional on uncovering ways to obtain compensating fiscal revenues.